



TITLE:

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AUTHOR(S):

Shimizu, Hiroshi

CITATION:

Shimizu, Hiroshi. Dutch-Japanese Competition in the Shipping Trade on the Java-Japan Route in the Inter-war Period. 東南アジア研究 1988, 26(1): 3-23

ISSUE DATE:

1988-06

URL:

<http://hdl.handle.net/2433/56310>

RIGHT:

Dutch-Japanese Competition in the Shipping Trade on the Java-Japan Route in the Inter-war Period

Hiroshi SHIMIZU*

In the inter-war period, Japan emerged as one of the principal exporters to many colonies and semi-colonies of the Western powers in South and Southeast Asia, the Middle East and others [Redford 1956: 249–262; Shimizu 1986a: Ch. II]. One of the major factors in Japan's rapid trade expansion was the steep fall in shipping charges for Japanese goods, which contributed greatly to the reduction in the prices of Japanese goods in overseas markets, as by the early 1930s Japanese shipping companies had established various regular foreign shipping routes. In this respect, it is worth while to note that Denis Koh Soo Jin and Tanaka Kyōko state with regard to the Malayan market of the 1930s that "Japanese competition in invisible items (i.e. services such as banking, insurance, shipping, etc.) is not dealt with because of its relative unimportance and the difficulties in gauging such competition..." [Koh and Tanaka 1984: 374]. However, as far as shipping is concerned, one cannot easily dismiss it as "relatively unimportant." Indeed, in the inter-war period shipping constituted an important integral part of Japan's trade expansion strategy into various parts of the world including British

Malaya [Ellinger and Ellinger 1930: 191–194; Ginsburg 1949; Hichens 1939: 661–678; Shimizu 1986a: 81–84].

The case of the Netherlands Indies is particularly interesting, because it was one of the few foreign markets for which Japan became the largest supplier in the 1930s, leaving the colonial power far behind. Dutch-Japanese shipping competition seems to have played an important part in her success by contributing greatly to the reduction in the prices of Japanese goods in the Indies market. Despite the importance of the subject, however, as far as I am aware there exists at present no specialist study on this, even though some scholars including Asahara, Broek, Morris-Suzuki and van Gelderen give brief accounts of it in their works [Asahara 1978: 138–140, 181–183, 369–376; Broek 1971: 67–69; Morris-Suzuki 1984: *passim*; van Gelderen 1939: 73–76]. This article therefore traces the origins and development of the Dutch-Japanese shipping competition on the Java-Japan route, and to a lesser extent, on the coastal and inter-island shipping routes of the Indies archipelago during this period, studies the role of the Japanese and Dutch Indies Governments towards the settlement of the shipping issue, and examines the relationship between shipping competition and Japan's trade expansion.

* 清水 洋, Department of Japanese Studies, National University of Singapore, 10 Kent Ridge Crescent, Singapore 0511

Java-Japan Shipping Route to 1931

Prior to 1902, there had been no direct shipping between Java and Japan, and Japanese goods had been mainly transported to the Indies via Singapore, and Indies produce including Javanese sugar largely through the same route.¹⁾ But in that year, the Java-China-Japan Line (JCJL) was formed with a capital of 15 million guilders by several Dutch shipping companies including the Nederland Line and the Rotterdam Lloyd Line, and in the following year began to operate a direct route for the carriage of passengers and cargo. It provided one trip every four weeks between Java and Japan [Kaji 1943: 74-75; Katayama 1982: 401; Yoneda 1943: 6-7]. It received a loan of 300,000 guilders a year at a very low-interest rate from the Hague Government in the first five years of its establishment, 250,000 guilders in the second five years, and 200,000 guilders in the third five years. However, the JCJL made so much profit during the First World War that it was able to repay all the debts to the government by 1919 [Asahara 1978: 139; Kaji 1943: 75]. Indeed, its annual dividend rose steeply from 8.5 per cent in 1913 to 20 per cent in 1917 and 30 per cent in 1918 [Kok 1931: 189]. Actually, this was the first case where the Dutch Government gave low-interest loans to a shipping company

under the Dutch flag. However, the agreement of July 1902 stipulated that the JCJL was to obtain the Indies Government's approval for the appointment of directors and its authorisation for any alteration in the company regulations, while the government officials could check the company's account books at any time and attend the meetings [Kaji 1943: 74-75].

It was, however, not until 1912 that a Japanese shipping company began to operate the route—initially via Taiwan and Singapore. In that year three shipowners put their capital together to form the Nanyō Gumi under the auspices of the Japanese Ministry of Communications. It began to operate three 3,000-gross-ton class ships on the route for the transport of passengers and cargo, and received from the ministry a subsidy of 75,000 yen in 1912, 150,000 yen each in the next two years, and 75,000 yen in 1915 [Asahara 1978: 140]. In 1914, the company was re-organised under the name of Nanyō Yūsen Kaisha (NYKA), a joint-stock company. Actually, the ministry had earlier failed to persuade the Nippon Yūsen Kaisha (NYK) and the Ōsaka Shōsen Kaisha (OSK), two major Japanese shipping companies, to establish the route, not only because the amount of the subsidy offered was not large enough, but also because they were not sure of its profitability [*ibid.*].

In the early years of its operation, the NYKA's southbound route included Chilung and Singapore, and the company was far from competing with the JCJL on the Java-Japan route, not only because it took many days to travel between Japan and Surabaya but also because their ships were old with crews unused to foreign shipping routes [Katayama 1982:

1) However, it should be noted that until after the outbreak of the First World War, Japan's trade with the Netherlands Indies remained fairly small. During the period 1909-13, for example, the Japanese were responsible for a mere 1.25 per cent of the Dutch colony's total imports and took 4.26 per cent of its total exports [Broek 1971: 113].

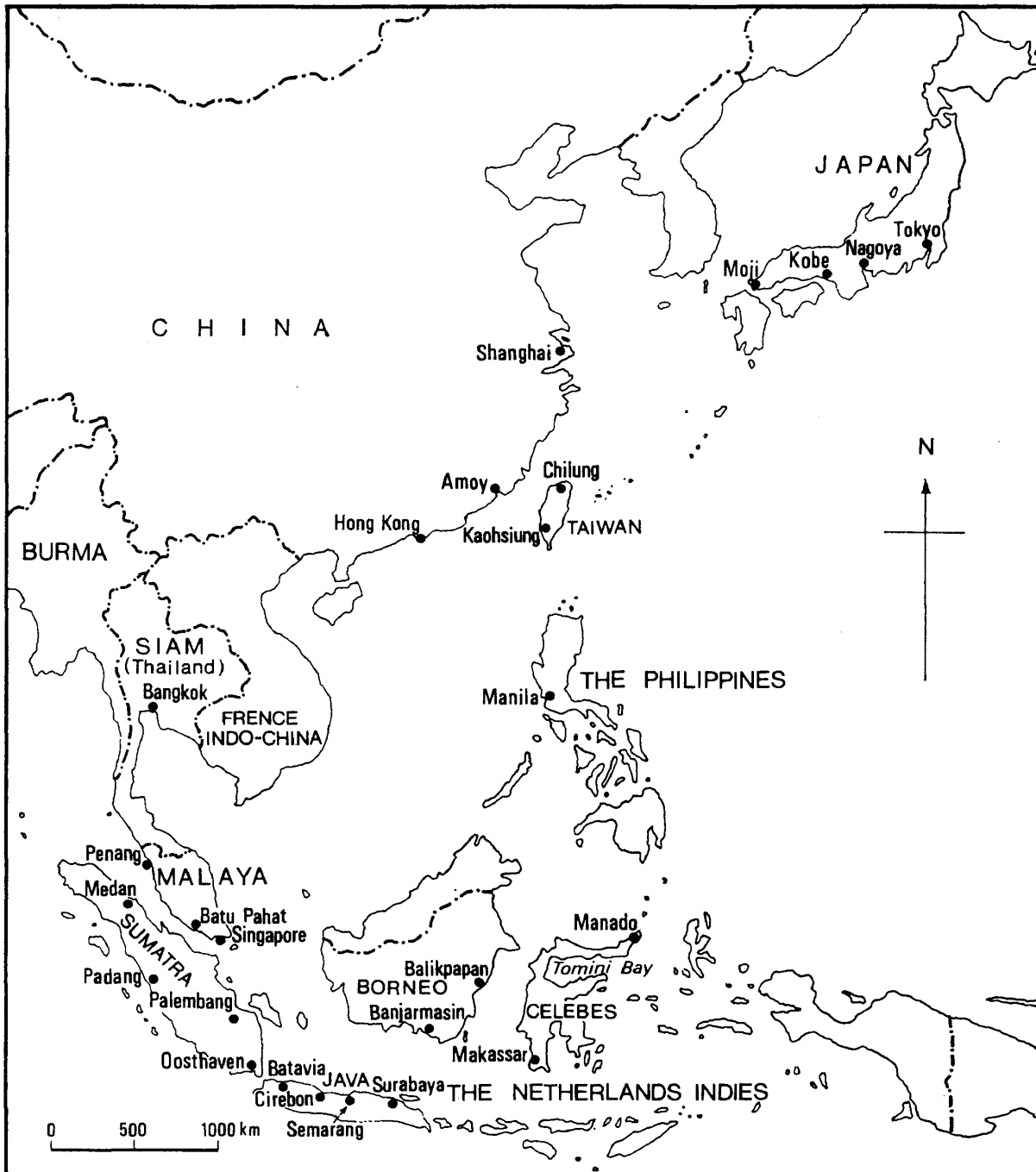


Fig. 1 Japan and Southeast Asia in the Inter-war Period

404]. Actually, most of the goods destined for Java were trans-shipped at Singapore; Indeed, most of those Japanese merchants who resided in the Indies normally obtained via Singapore such goods which were transported first by the NYK or other ships on the Japan-

Europe or Japan-Calcutta routes—there were then frequent and speedy shipping services available from Japan to Singapore [*loc. cit.*].

After the outbreak of World War I, there developed world-wide shipping shortages,

which deteriorated as the war continued. During the war years the tonnage of European ships serving the Indies declined sharply due to sinkings or recalls to their home countries in Europe. Thus, the tonnage of the Dutch ships fell from 20 million at the outbreak of the war to 15 million in 1918, that of the U.K. from some 5.4 million to a mere 1.34 million, and that of Germany from about 2 million to practically nil. Italy, Spain and Denmark also witnessed a steep decline in the tonnage of their ships. However, during the same period, that of Japan rose from 0.6 million to some 1.23 million [NKZ 6(2): 27-28. 29 February 1920]. Besides, in the virtual absence of severe European competition in the Indies import trade, Japan began to supply the Dutch colony with large quantities of manufactured goods, thereby requiring more shipping services on the Java-Japan route. The value of Japanese exports to the Indies rose steeply from a mere 5.5 million guilders in 1913 to 104.8 million guilders in 1918. Similarly that of her imports from the colony, comprising mainly primary commodities (particularly sugar), rose from 35.8 million guilders to 77.8 million guilders during the same years [Takei 1929: 244]. As a result, Japan's average annual share in the Dutch colony's total imports rose suddenly from a mere 1.25 per cent during the period 1909-13 to 10.04 per cent during the period 1914-18. However, during the same years her average annual share in its exports increased only slightly from 4.26 per cent to 4.38 [Broek 1971: 113]. Naturally, the NYKA did not fail to seize the golden opportunity to reap huge profits. But the company limited its dividend to only 10 per cent a year during the war, with the result that it was

able to increase its capital from 1.5 million yen in October 1914 to 5 million yen in May 1920 [Sumita 1925: 1910].

In the meantime, in May 1916, the OSK began to operate first the Java-Chilung route as the Taiwan Government's subsidised shipping route (receiving an annual subvention of 100,000 yen), using two ships of more than 3,000-gross tons each. But because of enormous demand for shipping services during the war years when, in the near absence of European competition, Japan began to supply the Indies with large quantities of consumer goods, the OSK's ships started to make voyages from the Japanese ports to Java through some Taiwanese ports.²⁾ At the same time the company increased the number of the ships to three, providing one trip a month instead of one trip in every two months [Asahara 1978: 139]. Now, the NYKA's port of call at Chilung was terminated in order to avoid excessive competition with the OSK. Moreover, in March 1918 the NYK opened the Japan-Java, Java-Calcutta, and Calcutta-New York routes—the first route was set up as the company wanted to open the second [*ibid.*: 181-182].

By the spring of 1920, however, the major European powers had resumed exporting their goods to the Indies in competition with Japan. Also there was a post-war economic recession in the Indies which lasted from 1920 to 1923. As a result, there was a steep fall in demand

2) It would be wrong to assume that the OSK hastily decided to establish the Java-Japan route simply to take advantage of the wartime boom, as the company had made preparations for it before the outbreak of the First World War. For further information about this, see [Asahara 1978: 138-139; Katayama 1982: 388-411].

for Japanese imports whose value fell from some 134,140,000 guilders in 1920 to some 57,494,000 guilders in 1922 [Takei 1929: 244], the fall coinciding with the over-supply of shipping services from Japan to Java.

Similarly, the value of the Indies' exports to Japan declined from 140,010,000 guilders in 1920 to 109,573,000 guilders in 1923 [*loc. cit.*]. There were cargoes on the northbound route to Japan, but these were not sufficient to fill up all the regular ships. Actually, none of the Japanese shipping companies was doing well. However, the JCJL's performance was much better than theirs for several reasons. First, as will be studied later, the Japanese shipping companies heavily relied on the foreign shipping agencies in Java for the collection of cargoes, but these agencies also acted for many other shipping companies all at the same time. On the other hand, the JCJL had its own branches at Batavia, Semarang, Surabaya, Makassar, Manila, Amoy, Hong Kong, Shanghai and Kobe [Yoneda 1943: 8-9]. Second, the Japanese shipping companies normally had to call at all the designated ports on the subsidized routes whether there was sufficient cargo to load or not, whereas the subsidized routes operated by the Dutch-flag companies were made rather flexible, permitting them to skip certain ports [NKZ 6(2): 32-34. 29 February 1920]. Third, for the transport of ebony and laun to Japan, the Koninklijke Paketvaart Maatschappij (KPM), another Dutch-flag line, issued through bills of lading to the JCJL. Without them, high transshipment and warehousing charges would have had to be paid by the shippers. At any rate, the Japanese ships on the route were not well equipped to carry huge logs [Takei 1929:

201-202]. Finally, although the JCJL did not receive any direct subsidy, it was given by the Batavia Government the sole right to transport overseas Chinese between Amoy and Java to the total number of some 30,000 a year [NKZ 6(2): 32-34. 29 February 1920], and one could argue that this constituted a sort of indirect subsidy to it.

As there was excess tonnage of ships operating on the southbound route from Japan to Java, the average freight rate for general merchandise per ton fell from 16 yen in January 1921 to 12 yen in December 1921 [Sumita 1925: 1000]. Actually, in order to cope with the difficulties the JCJL and the three Japanese shipping companies concluded in October 1921 a shipping conference agreement on the route from Japan to Java concerning the freight rates, allocation of cargoes and the deferred rebate system. But this agreement came to an end in December of that year, as the terms were not strictly complied with by the members. By the mid-1922, however, the freight rate for general merchandise had further fallen to 9 yen [*loc. cit.*] and thus in June 1922 a new agreement was signed by the four shipping companies, with similar terms [Wakimura 1934: 27; OSKG (337): 12 June 1935]. The conference was kept in force until the early 1930s and there was no dispute among them until then. It should be noted that there was no agreement on the route from Java to Japan, but the freight rates remained more or less similar to each other. This is because there was far less competition on the northbound route. Actually, transportation of manufactured goods was more profitable than that of foodstuffs and raw materials due to the higher freight rates for the former.

The Rise of the Ishihara Sangyō Kaiun Kaisha

Up till 1931 there were three shipping companies operating on the direct Java-Japan route in the conference of 1922, viz. the JCJL, the NYKA and OSK. As for the NYK, it had by this time ceased temporarily the operations between Japan and Calcutta via Java. In early 1931, the Ishihara Sangyō Kaiun Gōshi Kaisha [the Ishihara Enterprise Shipping Company] (ISK) applied to join the conference but was refused admission. In March 1931 it therefore decided to inaugurate regular shipping services on the route, offering freightage at 20 per cent below the conference rates. In retaliation, the conference companies also cut down their freightage by 20 per cent while at the same time raising the deferred rebate rate from 10 per cent to 20 per cent, the new rates being backdated to 1 January of that year [Wakimura 1934: 27-28].

Unlike its Japanese rivals, the ISK did not receive any subsidy, and was yet able to offer low freight rates. The reasons for its strength are not hard to find. The company's main interests in the South Seas were in iron mining in Johore. Initially it relied for the transportation of iron ore from Batu Pahat in the Malay Peninsula to the Yawata Iron Works in Northern Kyūshū, Japan on the OSK in 1920 and 1921, and on the Kokusai Kisen Kaisha [the International Steamship Company] in 1922 and 1923. In 1924, Ishihara Hiroichirō, the founder and president of the Nanyō Kōgyō Kōshi [the South Sea Mining Company] in Osaka, which was renamed the Ishihara

Sangyō Kaiun Gōshi Kaisha in 1929, managed to obtain a loan of 2.5 million yen at a very low interest rate from the Japanese Ministry of Finance, of which 1.04 million yen was used to purchase three old ships and the remainder was partly spent on expanding the mining facilities in the Malay Peninsula. He then continued to build up the fleet of ships, and by 1930 he could transport in his ships over half of the iron ore to Japan. In the meantime Ishihara came to the view that if his ships could carry Japanese goods to the South Seas at low costs on their way to Batu Pahat rather than returning there in ballast, this would not only cut down the operating costs but also facilitate Japan's rapid trade expansion into Southeast Asia [*ibid.*: 29-30].

At this juncture, it may be worth while explaining the relationship between the ISK and the Nanyō Sōko Kaisha [the South Seas Godown Company]. The Nanyō Sōko Kaisha was established by the Bank of Taiwan with a capital of 5 million yen in Taipei in 1920, and had branches in Semarang, Surabaya, Canton, Singapore and Batavia. It also established representative offices in Cirebon, Cilacap and Probolinggo ports. However, the company needed to have a satisfactory means of dealing with warehouse bonds in order to function as a warehousing company, and it proved to be best to entrust the Java Bank to play this role for the company. The Java Bank accepted the responsibility of handling its warehouse bonds on the condition that its Surabaya branch became a local subsidiary. Thus, the branch was made N.V. Nanyo Veem incorporated under the Netherlands Indies law in December 1927, and the Java Bank became the auditor to the new company. Handa Jisaburō, the

former branch manager of the Taiwan Bank at Batavia, was appointed its managing director. The Nanyo Veem then leased a southern part of the Surabaya jetty and built a new warehouse there. It also made use of the old warehouses at Surabaya, Batavia, and Semarang, and rented a warehouse at Cirebon, and others built by the Mitsui & Co. Ltd. in Cilacap and Probolinggo [JFMA. F.1.6.0/7. Despatch 171. 27 June 1931].

The Nanyō Sōko Kaisha had initially suffered financial difficulties partly because of the post-war recession and partly because of Chinese boycotts. In the first four years of its operations since 1920 it incurred a total accumulated debt of 400,000 yen, and the Taiwan Government had to give a subsidy of 250,000 yen [Nakamura 1981: 239]. After the establishment of the Nanyo Veem, its performances somewhat improved. Eventually, it fell under the control of Ishihara Hiroichirō after he guaranteed the Bank of Taiwan for accepting the company's liabilities [JFMA. F.1.6.0/7. Despatch 171. 27 June 1931; *ibid.* Despatch 185. 24 July 1931].

When the ISK inaugurated its shipping services on the Java-Japan route in 1931, it made the Nanyo Veem its sole agency, and also asked various European concerns, including the Handels Bank and the Factoriji, to act as its agencies in different parts of Java, but it failed to get their support, largely because they were under the pressure of the conference companies, particularly the JCJL [JFMA. F.1.6.0/7. Despatch 123. 28 April 1931]. Thus, besides the Nanyo Veem, the company had the Nichi-in Shōkai and Tsubono Shōkai as its agencies at Makassar [Nanyō Kyōkai 1932: 297]. Also, although Handa

of the Nanyo Veem planned to reduce loading charges, the Java Bank was against his idea. Thus, the ISK could not cut down the rates. At any rate, loading charges were hitherto not decided only by the shipping companies on the regular Java-Japan route, but by all those whose ships called at the Javanese ports [JFMA. F.1.6.0/7. Despatch 68. 16 March 1931].

Although the Nanyo Veem, when it came into being, offered to act as a shipping agency for the OSK and the NYKA, neither of them was interested in the Japanese-controlled godown company [*loc. cit.*]. This is probably because they preferred to use well-established European agencies with better facilities, and also because they apparently did not wish to make use of the services provided by the godown company under the control of their rival. The NYKA had as its shipping agencies, Maclaine, Watson & Co. at Batavia, Fraser Eaton & Co. at Surabaya, MacNeill & Co. at Semarang, and Michael Stephens & Co. at Makassar [Nanyō Kyōkai 1932: 297]. As for the OSK, it had a branch in Surabaya and had as its agencies Klaasen & Co. at Batavia, Kwik Hoon Tong Handel Mij at Semarang, and Gatz Java Trading Co. at Makassar [*loc. cit.*]. But some of the shipping agencies were large firms which were working for a number of shipping companies all at the same time, and were not fully committed to providing services to shippers for the Japanese shipping companies alone. In the early 1930s, Fraser Eaton & Co., for example, acted as agencies for eight shipping companies including the NYKA [*loc. cit.*]. Moreover, neither the NYKA nor the OSK had any warehouse of its own. Thus, the ISK

was in a better position in this respect.

The NYKA operated four ships on the Java-Japan route, all of which were under the Japanese Ministry of Communications' subsidy. As for the OSK, its two ships, Surabaya Maru and Batavia Maru, received subsidies from the Taiwan Government, but the company's two other ships on the route were not subsidised. As noted earlier, there was no conference on the northbound route from Java to Japan, but it just happened that the rates offered by the JCJL and the two Japanese shipping companies were similar to each other. As the carrying capacity of the conference companies was not sufficient during the busy seasons, they had mutually agreed that whenever there were excess cargoes bound for Japan, each company would provide ships on a temporary basis, but such ships were not permitted to carry the cargoes which were originally contracted to be transported by the regular ships. In practice, apart from the JCJL the two Japanese shipping companies provided only a few temporary ships. Instead of the OSK and the NYKA, such Japanese companies as Yamashita and Tatsuma provided tramp ships to Java to take up excess cargoes. As a result, shippers operating on a

small scale found it very difficult to have access to regular shipping services to Japan, and they naturally welcomed the entry of the ISK [JFMA. F.1.6.0/7. Despatch 123. 28 April 1931].

As of 1931, each conference company had four ships in operation on the route, and each ship made six trips a year. The total tonnage was 30,993 for the JCJL, 17,536 for the OSK, and 16,061 for the NYKA. As for the ISK, it owned six ships with a total tonnage of 33,572, all of which called at the main Javanese ports on their way to Batu Pahat, whereas on their way to Japan four called at these ports and two others sailed direct to Japan. Initially the ISK's ships had set off from Kobe, but by the summer of 1931 they began their southbound voyages from Yokohama and reached Johore after calling at Nagoya, Kobe, Moji, and various Javanese ports. Moreover, in order to build up its fleet of ships, the company had two new ships built, namely Nagoya Maru and Johore Maru, both equipped with pulverised coal combustion engines, which could cut down the duration of the voyage as well as the cost of operations. Thus, the ISK reduced the freight rates further [Wakimura 1934: 27-28].

Table 1 Carryings of the JCJL and the Three Japanese Shipping Companies on the Route from Japan to Java
(Percentages of Total Tonnage)

	1929	1930	1931	1932	1933
JCJL	53.6	54.3	50.0	35.5	24.9
NYKA	25.0	27.3	18.5	17.6	17.3
OSK	21.4	18.4	16.8	18.0	16.3
ISK	—	—	14.7	28.9	41.5
Total (%)	100	100	100	100	100

Sources: [JFMA. B.2.0.0/J/N 2-1-4, Memorandum, Undated 1934; Wakimura 1934: 27]

As Table 1 reveals, the carryings of the ISK on the route from Japan to Java rose from nil in 1930 to 14.7 per cent in 1931 and 41.5 per cent in 1933, whereas those of all the three conference companies fell steeply. However, unlike all the others the NYKA operated its ships only on this route, and therefore suffered a fatal blow. Fortunately, as its large shareholders included several influential individual shipowners and as the company was a recipient of a subsidy from the Japanese Ministry of Communications, the company did not easily go bankrupt.

The KPM and Japanese Competition on the Coastal and Inter-island Routes

Besides the JCJL, another Dutch-flag company, the Koninklijke Paketvaart Maatschappij (KPM) also began to suffer from increasing Japanese competition in the late 1920s and the early 1930s. It had been set up with a capital of 50 million guilders by the Nederland Line and the Rotterdam Lloyd Line in 1888, and began operations in 1891 [Nanyō Dantai Rengōkai 1943: 428; Hyde 1964: 37–39]. It continued to grow in size and soon began virtually to monopolise the coastal and inter-island shipping of the Indies, not only because of the official protection but also because of the fact that, apart from Java, the inland communications of the Dutch colony, such as railways and highways, remained underdeveloped. In addition, the KPM came to link the Indies with Africa, Australia, South Pacific and South and Southeast Asia through an extensive network of shipping. In 1939 it operated 64 routes of which 32 were subsidised

routes, and employed as many as 9,438 crew (of whom some 8,000 were Chinese and Indonesians) [Watanabe 1943: 115; Yoneda 1943: 116–119].

The company's shipping charges were known to be exceptionally high. The cost of transportation of manufactured goods from Surabaya to Makassar by the KPM (458 miles) was, for example, similar to that from Kobe to Surabaya by the NYKA (over 3,000 miles). Moreover, as the railway fare was made close to the KPM freight rates, it was not cheap to send goods by rail [Takei 1929: 203–204]. This explains why it was that the coastal and inter-island trade was not greatly developed in the archipelago. However, the company claimed that it was not making huge profits because it had to maintain many unprofitable lines in accordance with the Indies Government policy (even though the company received from the Hague Government an annual subsidy of 520,000 guilders during the period 1925–30, and of 325,000 guilders thereafter). Thus the KPM maintained that it was trying to make balances by charging high freight rates wherever possible [Kaji 1943: 70]. But one would have to point out that the company's operating costs were high, not only because of the payment of high salaries to Dutch crew, but also because it maintained many "unreasonably" luxurious ships [Yamada 1934: 25; Yoneda 1943: 179].

Incidentally, H.W. Dick is of the view that "... except during the Depression of the 1930s, traders do not seem to have shown much dissatisfaction with the cost of shipping by the KPM..." [Dick 1987: 12]. Moreover, van Gelderen of the University of Utrecht simply states that the JCJL

suffered heavy losses and steadily lost ground. This situation became more dangerous when the Japanese companies also tried to extend their direct traffic to an increasing number of ports, instead of confining themselves . . . to the traffic with some major ports and transferring the cargoes for internal distribution to the KPM [van Gelderen 1939: 73-74].

It should, however, be pointed out that in the 1920s, one of the major difficulties faced by Japanese merchants was the high costs of the coastal and inter-insular shipping services provided by the KPM. Actually, the Japanese shipping companies were anxious to break the monopoly of the Dutch-flag company.

Prior to the establishment of a direct Japan-Sumatra route in 1928 by the OSK, the bulk of Japanese goods destined for Sumatra was transported by the OSK, the NYK and other shipping companies first to Singapore or Penang where they were trans-shipped onto the ships of the KPM, the Straits Steamship Company or the P. & O. Company for Sumatra. Similarly, local produce in the island was shipped to Japan via Singapore or Penang. As a result, costs of transportation were very high, and cargoes were sometimes subject to considerable delay and damage [NKZ 16(2): 43-44. 1 February 1930]. Actually, it cost 10 yen per ton for the transportation of miscellaneous goods from Japan to Singapore, but 12 yen 50 sen from Singapore to Belawan (Medan's port) [JFMA. F.1.6.0/7. Official Letter. 6 November 1928]. Eventually, after obtaining permission from its conference members, as from November 1928 the OSK increased the number of its ships from three to six, and made two trips a month instead of one trip on the Calcutta route. Its

ships on the route began to call at Belawan once a month from that month. Now it took only 17 days from Japan to Belawan, thereby cutting down not only the duration of the voyage by 5 or 6 days, but also freight rates by more than 5 yen a ton [*ibid.* Official Letter. 11 December 1928; NKZ 16(2): 43-44. 1 February 1931].

Another route which one of the Japanese shipping companies established was the Java-Sumatra route. It cost 12 yen per ton for the transportation of miscellaneous goods by the Japanese ships from Japan to Batavia (over 3,000 miles), but it cost 24 yen from Batavia to Padang (575 miles) by the KPM [JFMA. E.3.1.1/4. Official Letter. 8 January 1928]. As the KPM virtually monopolised the Indies' inter-island shipping, it had trans-shipment agreements with other shipping companies at the various Indies ports. Eventually, in May 1932 the NYKA decided to extend its Java-Japan route to Padang, and began to call frequently at Oosthaven as from October 1932 while calling at Palembang from 19 July 1933. The KPM immediately demanded the Japanese company to give up the additional ports of call, threatening that unless the NYKA complied with its demand, the Dutch-flag company would break a trans-shipment agreement with it. As a counter-measure, the KPM attempted to increase the carryings of the KPM-JCJL on Japan-Padang route via Java by inducing Dutch merchant houses in the colony to use only their services. However, as the Japanese company cut down its freight rates greatly, it was able to attract many shippers [JFMA. F.1.6.0/7. Official Letter. 9 August 1933].

The KPM also faced competition from the

Daiichi Tora Maru, a 200-gross-ton ship, owned and operated by S. Shiohara whose shipping company, the Shiohara Kaiun Shōkai, was established in Surabaya with a capital of 30,000 yen in 1931 (the only ship owned by the company) [Yoneda 1943: 176–177]. The ship was put in operation in the northern Celebes in January 1931. Initially his ship carried produce for Arabs and Chinese on a chartered basis. At that time the KPM was charging so high freight rates for transportation of sugar from Surabaya to Manado that sugar prices became very high. Shiohara therefore decided to transport it on the route in response to the request by Chinese traders, and thus opened the Java-Celebes route in competition with the KPM. Whereas the KPM charged 4 guilders 25 cents for transportation of a bale of sugar from Surabaya to Manado, the Daiichi Tora Maru charged only 2 guilders (for contracted prices) [JFMA. F.1.6.0/7. Despatch 124. 13 May 1936].³⁾ Later his ship was chartered by Japanese shippers for the transportation of ebony logs between Manado and the Tomini Bay, and also by the Nomura Higashi-Indo Shokusan [the Nomura Netherlands Indies Enterprise] for the transportation of rubber from Banjarmasin to Surabaya for trans-shipment to the U.S. Although the Japanese-flag company constituted only a minor threat to the KPM, the Dutch-flag company tried to get rid of it by seeking official support or through attacks on it in local

newspapers [*loc. cit.*]. This was because the Arab and Chinese shippers, who were dissatisfied with the company's high charges, favoured the Daiichi Tora Maru, hurting its pride and reputation. The KPM had hitherto maintained the monopolistic position by taking over new local entrants which might compete with it, and actually made an abortive attempt to take over the Shiohara Kaiun Shōkai by offering a large sum of money to the owner. Although in 1936 the Indies Government passed a law reserving the coastal shipping for the Dutch-flag company, the Japanese company was permitted to continue to operate there because it had already obtained official permission for that [Watanabe 1943: 109–110; Yoneda 1943: 176–177]. In late 1936, Shiohara replaced his 200-gross-ton ship with a new and larger ship of 428 gross tons, certainly because his business was profitable.

Dutch-Japanese Shipping Negotiations

By the early 1930s, the Netherlands suffered from Japanese competition not only in the shipping trade but also in the import trade of the colony, largely because Japanese goods which comprised mainly consumer goods, particularly textiles, were much cheaper than similar Dutch articles.⁴⁾ Actually, Japanese goods had been cheap in the 1920s, but they became even cheaper during the Depression years because of several reasons. First, during the period of the deflationary policy in Japan, 1927–31, rationalisation took place, par-

3) According to Yoneda, however, the KPM charged 4 guilders for the transportation of a bale of sugar on the route, whereas the Japanese-flag company charged a mere one guilder and could still make profits [Yoneda 1943: 179–180]. However, the freight rate of 1 guilder a ton seems to have been too low to be profitable.

4) In 1931, for example, yarns and piece goods of all kinds accounted for 55.5 per cent of Japan's total exports to the Netherlands Indies [Nanyō Kyōkai 1936: 176–177, 182].

ticularly in the textile industry, and it was carried much further in the 1930s. Consequently, productivity was greatly raised with a considerable fall in the costs of production [Allen 1981: 153; Shimizu 1986a: 31–32]. Second, in December 1931, Japan left the gold standard, and subsequently the yen was allowed to depreciate, whereas the Dutch guilder, on which the Indies guilder was based, remained on gold until September 1936. As a result the exchange value of the yen fell from 113.3 Indies guilders per 100 yen in 1931 to 50.25 Indies guilders in 1933 and 42.69 guilders in 1935. The depreciation of the yen resulted in the steep fall in the prices of Japanese imports in the Indies market [Nanyō Kyōkai 1936: 99–100; Altes 1979: 157–173]. Third, as already noted, there was Dutch-Japanese shipping competition that led to a drastic fall in freight rates, and this further contributed to the decline in the prices of Japanese goods.

During the Depression years, cheap Japanese goods became especially attractive to local consumers whose purchasing power was greatly curtailed. As the Indies was heavily dependent upon the world market for her agricultural commodities, sugar being the most im-

portant, she was particularly hard-hit when the prices and demand for them plummeted. Indeed, during the years, 1928–35, the agricultural exports fell by some 34 per cent in terms of volume and by 75 per cent in terms of value [Shimizu 1986b: 7–8]. Thus many local consumers substituted cheap Japanese goods for similar but more expensive European ones. It is therefore not surprising to find that the Dutch share in the import trade fell steeply from 17.7 per cent in 1929 to 15.4 per cent in 1931 and 12.4 per cent in 1933, whereas during the same years the Japanese share rose sharply from 10.9 per cent to 17.1 per cent and 31 per cent (see Table 2).

As the large Dutch import merchants who had previously dealt mainly in European goods found it increasingly difficult to sell such goods in the Indies market, they set up branches or representative offices in the Kobe-Osaka region in the late 1920s and early 1930s, through which they began to import Japanese goods in large quantities in direct competition with Japanese importers in Java [Bluett 1933: 45].

In view of these developments, the Dutch authorities at Batavia tried to protect against

Table 2 The Dutch Indies' Trade with Japan and the Netherlands
(Percentages of Total Value)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
<i>Imports from</i>											
Netherlands	17.7	16.7	15.4	15.8	12.4	13.3	13.4	16.7	19.1	22.2	21.0
Japan ^{a)}	10.9	12.0	17.1	21.2	31.0	32.5	30.1	26.7	25.4	15.0	18.1
<i>Exports to</i>											
Netherlands	16.0	15.3	17.4	19.1	18.5	21.4	22.5	23.6	20.1	20.4	14.6
Japan ^{a)}	3.3	4.0	4.4	4.4	4.9	4.0	5.4	5.6	4.5	3.2	3.4

Note: a) includes Formosa

Source: Shimizu [1986b: 18]

Japanese competition the Dutch trade with the colony, the Dutch merchants, and the two Dutch-flag companies. In September 1933, it therefore passed a Crisis Import Ordinance which permitted the government to limit the import of any article by quotas or prohibitions. Now, "established" merchant houses were issued with import licences on the basis of their shares in the Indies' total imports during a specific period in the past, and could import certain specified goods from any country of origin within the limits. This was designed primarily to protect the well-established Dutch merchants against Japanese importers. It would appear that the Dutch authorities at Batavia were able to "encourage" Dutch merchant houses to use the JCJL's shipping services on the Java-Japan route [Imperial Shipping Committee 1939: 91-92]. The JCJL also worked closely with the KPM with a view to attracting shippers, as the KPM owned cranes, quays, lighters and godowns at all the Indies ports, and was in control of cargoes in the inter-insular carrying trade [*ibid.*: 24].

In 1933, a Dutch merchant in Semarang bought in Japan 200 tons of fertilisers for the Indies Government, and arranged for its shipment in an OSK ship. But at the beginning of the October he rearranged it and shipped 100 tons by the JCJL and the remaining half by the OSK, probably as a result of the pressure from the Dutch authorities [JFMA. F.1.1.0/3-9. Telegram 93. 16 October 1933]. Similarly although on 24 April 1933 the JCJL and the three Japanese shipping companies had agreed on a freight ratio for Japanese cement, with each having an allocated share of 25 per cent up to 48,000

barrels a month, the Batavia Government planned to give all the cargoes to the Dutch-flag company as from February 1934 (the agreement was to be rescinded in January 1934) [*ibid.* Letter. 12 October 1933; *ibid.* Telegram 117. 1 November 1933].

It should not be assumed that by this time the Dutch and Japanese shipping companies had not taken any action to bring an end to the shipping war. As the rate war dragged on, the Japanese Government decided to intervene in August 1932. After several meetings with the government's mediation, the four companies (including the NYK) reached an agreement on 26 August 1932, and then invited the JCJL to join them. On 28 September of the year, they managed to conclude a conference agreement with the Dutch-flag company under the following terms which were to be put into effect as from 1 January 1933 [JFMA. F.1.6.0/7. Letter 1391. 22 November 1932]:

- a) each company operates three trips a month;
- b) the freight rate is to be fixed within 80 per cent of the former conference rate, and the rate from Java to Japan is also to be fixed;
- c) a deferred rebate will be permitted;
- d) a freight ratio system for cargoes will be considered.

It is not very hard to find the reasons why the JCJL decided to join the new conference. During the 1932, the company suffered from increasing financial difficulties due to severe Japanese competition, political unrest and the depreciation of silver in China, the last two reasons contributing enormously to the decline in its north-bound cargoes, and also to a steep fall in the number of Chinese immigrants to

the Indies [Bluett 1933: 89]. Thus the number of new Chinese immigrants had been over 40,000 a year from 1920 to 1930, but fell to some 12,000 in 1932 and 9,000 in 1933 [Purcell 1965: 465].⁵⁾

The average share price of the JCJL fell from 145.12 guilders in 1929 to 100.25 guilders in 1931 and 28.65 guilders in 1933. Indeed, in the early 1930s the company gave no dividend to the shareholders [Nanyō Kyōkai 1936: 60]. There was even a proposal that the JCJL be sold to the KPM at the cost of 4.5 million guilders, but this was unanimously rejected during the general meeting on 22 July 1932 of the shareholders in Amsterdam [Bluett 1933: 89].

In the event, the conference companies were unable to agree on the freight ratio for cargoes on the southbound route with the result that a new rate war began in 1933. The Indies Government asked for a 50 per cent share for the JCJL on the grounds that two of the Japanese shipping companies received subsidies whereas the Dutch-flag company was not a recipient of any subsidy [JFMA. F.1.6.0/7. Telegram 106. 11 October 1933]. Moreover, on 29 September 1933, the representatives of the large Dutch merchant houses in the Indies, the Internatio, Geo Wehry, and Lindeteves visited Koshida Saichirō, the Japanese Consul-General at Batavia, and informed him that the JCJL ought to get a 50 per cent share, and also that up to 90 per cent of all the import trade of the Indies with Japan ought to be handled by the Dutch

merchants [JFMA. F.1.1.0/3-9. Telegram 102. 3 October 1933].

In October 1933 the three Japanese shipping companies agreed to give the JCJL a 27 per cent share but the latter asked them to give it a 33 per cent share. Then, in May 1934 the JCJL and the Japanese companies were on the point of reaching an agreement on the basis of 31 per cent for the Dutch-flag line, and the shipping issue was about to be solved. However, in June of that year the abortive Dutch-Japanese commercial talks began at Batavia to discuss the problem of Japan's trade expansion,⁶⁾ and the JCJL refused to accept the 31 per cent share. Now the Dutch authorities proposed to put the shipping issue on the agenda of the talks, undoubtedly in the hope that they could wring a larger concession for the JCJL from Japan, since the Japanese had accumulated huge trade surpluses with the Indies by this time.⁷⁾ However, the Japanese delegates insisted that it ought to be separated from the general economic issues, and proposed that a separate meeting be held between the JCJL and the Japanese companies in Kobe later on. The Batavia Government reluctantly agreed [Asahara 1978: 360].

Thus in January 1935 the executive members of the KPM and the JCJL and the representatives of the Japanese shipping companies met to discuss the shipping issue. How-

5) However, not all the Chinese immigrants into the Indies used the JCJL's shipping services. Also, Chinese residents returning there were not included in these figures.

6) Further information about the commercial talks of 1934 can be found in [NKZ 21(1): 12-14. 1 January 1935; *ibid.* 21(3): 1-5. 1 March 1935].

7) In 1933, for example, Japanese exports to the Netherlands Indies amounted to the value of some 98.4 million guilders, as compared with some 22.8 million guilders for her imports from it [Broek 1971: 113].

ever, the meeting broke down without even touching on the issue itself, apparently because they could not agree on which language—English or Japanese—should be used there [*Kaiun* (160): 58. 1 September 1935; *NKZ* 22(7): 2. 1 July 1936]. But it should be noted that before the talks the Japanese companies intended to give the JCJL a maximum of 31 per cent share whereas the Dutch-flag company was determined to get at least 40 per cent on the grounds that it was making heavy losses due to the fact that its freight charges were largely paid in the depreciated yen but its operating costs had to be paid mainly in guilder [Takei 1935: 306]. Thus, there was an irreconcilable difference from the beginning, and the talks were doomed to failure in any case.

After the breakdown of the Kobe talks, the Batavia Government intensified its restrictive measures against Japanese imports which were rapidly replacing Dutch goods in the Indies market, and at the same time endeavoured to encourage merchants to use Dutch shipping services by importing goods on a f.o.b. basis and exporting goods on a c.i.f. basis. Also the Batavia Government introduced a quota system, and did not permit the import of certain goods unless they were carried in the JCJL ships [*Kaiun* (160): 58. 1 September 1935]. These measures naturally helped to accelerate the JCJL's share at the expense of the Japanese companies. Indeed, the combined Japanese share fell to less than 50 per cent by the summer of 1935 [*loc. cit.*]. The shipping competition also resulted in the reduction of the freight rates to some 30 to 40 per cent of the former conference rates [Asahara 1978: 372].

As the Japanese Government realised how much the Japanese shipping companies were suffering from the Batavia Government's measures, and as it feared that other countries might resort to similar action to deal with Japanese competition in the shipping trade elsewhere, it decided to establish a new shipping company, Nanyō Kaiun Kaisha [the South Seas Shipping Company], by taking over all the shipping routes serving the Indies, operated by the four Japanese shipping companies (including the NYK). The Nanyō Kaiun Kaisha was founded in Tokyo with the total paid-up capital of 8.5 million yen on 6 July 1935, and it owned the 14 ships in the total tonnage of 73,400 which were purchased from the shipping companies at a low price of 60 yen per ton irrespective of the age of the ships. The Japanese Government made the Kobe-Batavia route a subsidised route for the new company which was then required to provide four trips a month. As the NYKA was operating only on the Japan-Indies route, it was completely dissolved [*ibid.*: 371; *OSKG* (337): 59. June 1935].

Since this was a national policy company, Asano Hajime, Director of the Shipping Control Section of the Ministry of Communications was appointed President. Also, although the NYK did not take an important part on the Japan-Indies routes, Terai Hisanobu, a chief of the Cargo Section of the NYK was appointed the managing director, probably because the NYK was Japan's largest and most influential shipping company. Ishihara Hiroichirō became the advisor, partly because the ISK contributed the largest tonnage of ships towards the formation of the new company [*Kaiun* (160): 3–6. 1 September 1935].

At the time of the formation of the Nanyō Kaiun Kaisha, Ishihara Hiroichirō made a manifesto in consultation with the Japanese government authorities that the Japanese Government needed to pass a trade protection law and to give priority to the settlement of the trade issue with the Indies Government rather than to that of the shipping issue. However, the government decided to deal first with the shipping issue and planned to hold a preliminary meeting with the JCJL in Kobe. As a result, Ishihara quit the post of the advisor in protest [*Kaiun* (165): 4. 1 February 1936].

On 28 November 1935, Terai Hisanobu of the Nanyō Kaiun Kaisha, and the Kobe branch manager of the JCJL, held a preliminary meeting in Kobe, but they could not agree on the freight ratio: the former insisted that the freight ratio should be based on the 1933/34 percentage figures, whereas the latter maintained that it ought to be on the basis of those of 1934/35 (when the Dutch-flag company regained the upper-hand thanks to the various restrictive measures taken by the Dutch authorities against its Japanese counterparts) [*ibid.* (164): 1-2. 1 January 1936]. Thus, the talks broke down, and since the Nanyō Kaiun Kaisha's board of directors' meeting was postponed as a result of Ishihara's resignation and also since there was no agreement on the freight ratio between the JCJL and the Indies Government, there were no more shipping talks for a while [*ibid.* (166): 7-8. 1 March 1936].

As the Dutch authorities continued to impose various restrictions on Japanese imports, both the volume of Japanese imports in the Indies market and the share of the Nanyō

Kaiun Kaisha fell continuously. However, it was not just the Japanese company which suffered from the Indies import restrictions. Both it and the JCJL were now short of cargoes on the route from Japan to the Indies: Japan's share in the import trade fell from 32.5 per cent in 1934 to 30.1 per cent in 1935 and 26.7 per cent in 1936 (see Table 2). The JCJL's ships were barely full thanks to their monopoly of cement transportation. On the other hand, on the northbound route the ships of the two companies were full of sugar and maize. But unlike miscellaneous goods and cotton textiles, freightage for them was very low, and neither of them was making large profits. As the JCJL was making heavy losses, it once again considered a merger with the KPM. But it was clear that a merger *per se* would not eliminate severe Japanese competition [*Kaiun* (170): 1. 1 June 1936].

As for the Nanyō Kaiun Kaisha, its principal base was the direct Java-Japan route, and its subsidiary routes were the Java-Japan routes via Taiwan and Hong Kong. Also it operated on the Java-Borneo route, the Java-Celebes route, and the Singapore route for Batu Pahat iron transportation to Japan. In the spring of 1936, it was striving to set up a Java-South China or Java-Dalian (North China) route with a view to competing with the JCJL. As the company's financial difficulties were growing, the Japanese Government decided to grant it a subsidy of 400,000 yen. Actually, in the first quarter of 1936 the Nanyō Kaiun Kaisha's share of the carryings from Japan to Java declined to some 30 per cent [*ibid.* (168): 1-3. 1 May 1936].

In the meantime, Ishihara Hiroichirō announced on 25 March 1936 the establishment

in Osaka of a new shipping company, the Nanyō Kōro Kabushiki Kaisha [the South Seas Shipping Line Company], with a capital of 2 million yen. He planned to provide two trips a month as from mid-April on the Java-Japan route, and intended to charter four 8,000-ton class ships. It not only aimed at providing shipping services to the Indies, South China, the Straits Settlements, India, and Australia, but also at managing warehousing and other shipping-related businesses. Ishihara also intended to use the ISK's branches and representative offices as agencies for the company, and in Java the company would make full use of the Nanyo Veem's facilities [*ibid.*: 1-3, 6-7]. However, the Japanese authorities were strongly opposed to the formation of Ishihara's new company, undoubtedly because they feared that it would further aggravate the shipping competition and make it more difficult for them to negotiate a settlement with their Dutch counterparts at Batavia.

At a special parliamentary session on 1 May 1936, the government proposed a Shipping Routes Control Law, and on the thirtieth of the month it was enacted. Under this law, the government could give a warning to a ship-owner if he was considered to be engaged in excessive competition which was likely to hamper the healthy development of Japanese shipping trade. If the warning was not heeded, then the government could place a ban on the operation of the company concerned. Thus this law was designed primarily to prevent unnecessary competition among Japanese shipping companies [*ibid.* (170): 2-3. 1 July 1936].⁸⁾ As this law was applied to the

Nanyō Kōro Kaisha, Ishihara was unable to operate his ships on the Java-Japan route. Thus the introduction of the Shipping Routes Control Law was a great relief not only to the Nanyō Kaiun Kaisha but also to the JCJL.

In the meantime, in April 1936 the new Japanese Consul-General at Batavia, Ishizawa Yutaka tried to solve the problem of the shipping issue with G.H.C. Hart, Director of Economic Affairs of the Indies Government, laying groundwork for formal Dutch-Japanese shipping talks. And, on the 27th of April, Terai Hisanobu of the Nanyō Kaiun Kaisha left Kobe for Java, and on his arrival there a meeting took place between him, Hart and some executive staff of the JCJL in Batavia. Eventually, on 10 June a conference agreement was formally signed with terms valid for three years beginning from 1 July (see Table 3). The agreement also stipulated that as from 1 July 1936 the pre-1931 conference rates were to be adopted, and that all the secret freight rebates were to be done away with and instead a uniform 10 per cent deferred rebate was to be adopted. Incidentally, according to Morris-Suzuki the Dutch-Japanese shipping conference was

opened in Kobe in 1935 with four Dutch and eight Japanese participants (one of them being Ishihara himself). At this point, however, the Japanese government decided that it was necessary to make some gesture of conciliation towards the East Indies. The three Japanese companies involved in the Java route were ordered to merge into a single concern . . . Nanyo Kaiun K.K. and Japan accepted Dutch demands that this company should restrict its share to 60 per cent of the traffic between

Law can be found in [Imperial Shipping Committee 1939: 131-132].

8) Details about the Shipping Routes Control

Table 3 Freight Ratio for the JCJL and the Nanyō Kaiun Kaisha
(in Percentages)

Shipping Route	JCJL	Nanyō Kaiun Kaisha
Java to Japan	40	60
Japan to Java	35.75	64.25
Japan to and from Palembang Padang Manado	50	50
Japan to and from KPM ports ^{a)}	60	40
Japan to Oosthaven	100	nil

Note: a) These were the Netherlands Indies' outports where cargoes were trans-shipped onto ships heading for Japan or for other destinations when they arrived from Japan.

Source: Imperial Shipping Committee [1939: 93]

Japan and Java . . . [Morris-Suzuki 1984: 160].

However, as already noted, the conference of January 1935 did not produce any agreement. Nor was the new Japanese company formed to make "some gesture of conciliation" towards the Indies. Finally, as the Nanyō Kaiun's share had fallen to as low as some 30 per cent on the route from Japan to Java just before the settlement of the shipping issue in 1936, one could argue that the percentage of the carryings given to it was considered to be favourable to Japan.

The Dutch-flag company had planned to be merged to the KPM, but now there was no need for it. It then continued to provide two trips a month. As for the Nanyō Kaiun Kaisha, it had provided six trips a month, but now planned to cut down the number to five from August. Also it retained a monthly service on the Java-Japan route via Hong Kong. Since the Japanese Government had decided to grant 400,000 yen as an annual subsidy, it was to receive a total of 580,000 yen of which the Taiwan Government provided 180,000 yen as a subsidy for the Taiwan-Java

route [*Kaiun* (171): 6. 1 August 1936].

The freight rates from Japan to Java were raised to the pre-1931 conference rate level for the time being. It was then announced to shippers that it would be raised by 30 per cent by two stages: the first stage by 15 per cent increase as from 1 November 1936, and the second by another 15 per cent as from 1 November 1937. The freightage from Java to Japan was also to increase by the same percentages. In addition, the freight rates for Japan-Padang and Japan-Palembang were to be raised by 10 per cent and 5 per cent respectively as from 1 November 1936 [*ibid.* (174): 7-8. 1 November 1936; *ibid.* (175): 1. 1 December 1936]. Thanks to the agreement of 1936, there was no more major shipping dispute between the two countries in the remainder of the 1930s.

Conclusion

The shipping rate war which began on the Java-Japan route in the early 1930s was initially not between the Dutch and Japanese shipping companies, but was triggered by the

entry of the ISK, a Japanese company on the route. Interestingly, it later developed into Dutch-Japanese competition. However, the competition between the KPM and some Japanese companies on the inter-island and coastal shipping of the Indies archipelago was caused as a result of the successful attempts by the latter to break the near monopoly on certain routes of the Dutch-flag company, which charged high freight rates.

The intense competition was one of the major factors for Japan's rapid trade expansion as the freight rates on the routes were so much reduced that the low transportation costs helped greatly to cut down the prices of Japanese goods in the Indies market. Even in the 1920s when the Dutch- and Japanese-flag companies were operating on the Java-Japan route in the conference, Japan had a distinct advantage over her European rivals including the Netherlands since the transportation costs of her goods to the Indies were much lower thanks to her geographic proximity. In 1929, for example, the freight rate for 40 cubic feet of textile manufactures was 26 shillings and half a penny from Osaka to Batavia (3,264 miles), as compared with 67 shillings 6 pence from Liverpool to Batavia (8,986 miles). [Ellinger and Ellinger 1930: 192]. During the period of the intense shipping war in the 1930s freight rates for transportation of Japanese goods to the Indies fell enormously. Since the shipping companies resorted to price cuttings independently and since they made secret agreements with shippers on low freight rates, it would be virtually impossible for anyone to know exactly how low the freight rates were. But, as already noted, they had fallen to some 30 to 40 per

cent of the conference rates by the summer of 1935. It is therefore beyond doubt that the shipping competition did help to cut down the prices of Japanese goods a great deal, facilitating Japan's trade expansion into the Indies. Ironically it was both the Japanese and Dutch shipping companies which helped to improve the competitive edge of Japanese imports over similar Dutch goods, as they were both engaged in the cut-throat competition.

Eventually, the Dutch authorities at Batavia abandoned the *laissez-faire* policy in 1933, and resorted to protective measures largely to deal with Japanese competition in the shipping and import trades. The Japanese Government also decided to intervene in the shipping issue. Unlike the private companies which were primarily concerned with profit maximisation, the two governments had to take into account Dutch-Japanese diplomatic and political relations in addition to the economic interests of their own countries. Thus, the terms of the 1936 agreement reveal that the Dutch and the Japanese authorities were still anxious to work out a compromise solution for the sake of mutual benefits. Naturally, one cannot agree with Broek's view that the shipping issue was settled "without direct government intervention, but the outcome was no doubt influenced by the possibility that the Indies Government might act ..." [Broek 1971: 68].

To conclude, the inter-war Dutch Indies witnessed the decline of the Netherlands as a major supplier for the colony as well as a predominant maritime power on the Java-Japan route as a result of the emergence of Japan as a formidable rival in the shipping and import trades. Indeed, the Japanese

military occupation of the Indies in early 1942 was preceded by the deterioration in the economic power of the Netherlands in the colony.

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